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RELEASED

# Progress By Gallaudet College In Making Needed Financial Management Improvements

B-164031(1)

Department of Health, Education,  
and Welfare

BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES

089972

913445

OCT. 26, 1972



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON D C 20548

B-164031(1)

Dear Mr Macdonald.

In accordance with your request of December 2, 1971, we have examined the employment procedures and have audited the accounts of Gallaudet College. The results of our review are set forth in this report.

We did not obtain written comments from the Department of Health, Education, and Welfare on this report. However, we discussed the report with college officials.

We plan to make no further distribution of this report unless copies are specifically requested, and then we shall make distribution only after your agreement has been obtained or public announcement has been made by you concerning the contents of the report.

As agreed with your office, we issued a separate report to the Secretary of Health, Education, and Welfare on specific administrative and fiscal matters.

Sincerely yours,

A handwritten signature in cursive script, reading "James B. Stacks", is written over the typed name.

Comptroller General  
of the United States

The Honorable Torbert H Macdonald  
House of Representatives

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GAO

General Accounting Office

HEW

Department of Health, Education, and Welfare

## CHAPTER 1

### INTRODUCTION

In response to a request by Congressman Torbert H. Macdonald, we examined into the employment procedures and audited the accounts of Gallaudet College, Washington, D.C. Our examination included tests of financial transactions and an evaluation of the college's internal controls. A recent study of the college's fiscal operations, made by Price Waterhouse & Co., was an important source of information.

In accordance with arrangements made with Congressman Macdonald's office, our review was concerned primarily with procedures and practices in effect during fiscal years 1971 and 1972. We also agreed to give special attention to

- actions taken by the business manager to protect the college against the diversion of payroll funds,
- the basis for appointment of the business manager,
- business office staffing,
- writeoffs of accounts receivable, and
- yearend spending and questionable practices in the obligation of funds.

We examined personnel files, interviewed college officials and other individuals, and evaluated college policies and practices.

### CREATION AND PURPOSE OF GALLAUDET COLLEGE

Gallaudet College is a private, nonprofit institution devoted to educating and training the deaf and places primary emphasis on higher education. The college, formerly known as the Columbia Institution for the Deaf, was established by the Congress on February 16, 1857 (11 Stat. 161). The Institution's name was changed to Gallaudet College on June 18, 1954 (68 Stat. 265).

In October 1966 the Congress authorized the establishment and operation by Gallaudet College of a Model Secondary School for the Deaf to provide secondary education to deaf adolescents, primarily those residing in the District of Columbia and nearby States, and to provide an exemplary school program to stimulate the development of similar programs throughout the Nation (80 Stat. 1027). This school is operated by the college under an agreement dated May 16, 1969, with the Secretary of Health, Education, and Welfare (HEW).

#### ORGANIZATION AND MANAGEMENT

HEW has budget and audit responsibilities for the college and for the Model Secondary School for the Deaf.

The college is governed by a board of directors composed of 21 members, including a Senator and two Representatives. The activities of the college are administered by a president appointed by the board of directors.

The college's six administrative officers, who report directly to the president, are the vice president for planning and public service, the dean of the college, the dean of the graduate school, the dean of precollege programs, the dean of student affairs, and the business manager. The Office of Business Management, under the direction of the business manager, is responsible for budgeting, accounting, nonfaculty personnel administration, purchasing, security, auxiliary services, and operation and maintenance of the physical plant.

The dean of precollege programs is also the director of the Model Secondary School for the Deaf.

The college and school enrollments and staffing for fiscal year 1972 are shown below.

	<u>Enrollment</u>	<u>Staffing</u>	
		<u>Faculty</u>	<u>Nonfaculty</u>
College	1,096	210	237
Model Secondary School for the Deaf	91	61	33

## FINANCING

The college derives its financial support from both Federal and non-Federal sources. These include annual appropriations from the Congress for operating expenses, auxiliary enterprises of the college, tuition, and grants from Federal agencies and private sources. Federal appropriations are received also for construction programs

For the year ended June 30, 1971, financial support for the college was provided as follows:

General funds:	
Federal appropriations	\$5,879,000
Auxiliary enterprises (dormitories, food service, and bookstore)	1,254,000
Tuition	703,000
Other sources (student fees, interest, and other miscellaneous income)	96,000
Restricted funds:	
Grants (Federal and private)	699,000
Endowment fund income	46,000
Donations	33,000
Other sources	<u>61,000</u>
Total	<u>\$8,771,000</u>

The college also received Federal appropriations of \$1,400,000 to finance construction projects.

Financial support for the Model Secondary School for the Deaf is provided entirely by Federal appropriations. For fiscal year 1971 the school received Federal appropriations of \$2,189,000 for its operation and \$250,000 for construction.

## CHAPTER 2

### PREVIOUSLY REPORTED WEAKNESSES IN INTERNAL CONTROLS, OBLIGATION PRACTICES, AND HEW AUDITS

In July 1971 we reported to the Secretary of HEW on a review of the college's administrative procedures and internal controls relating to Federal funds, including funds appropriated for financing the construction and operation of the Model Secondary School for the Deaf (B-164031(1), July 12, 1971).

In that report we pointed out a need for the college to divide payroll functions among several employees as a means of preventing diversions of funds such as occurred in 1968 and 1969. (See pp. 15 to 20 of this report for a further discussion of this matter.) We reported also that the college recorded, as obligations, proposed contracts and purchase orders which had been prepared but which had not been placed with vendors. As noted on page 25 of this report, the college has discontinued this practice.

In our 1971 report we also commented on the need for the HEW Audit Agency to give increased attention to the adequacy and effectiveness of the financial management controls at the college and at the school. HEW agreed and stated that, depending on available manpower, audits of these institutions would be made more frequently. HEW audits of the college and the school, an HEW official said, are scheduled to be made during fiscal year 1973.



### CHAPTER 3

#### RESULTS OF A SPECIAL STUDY OF THE COLLEGE'S FISCAL OPERATIONS

Under a contract with the college, Price Waterhouse made a comprehensive management study of the college's fiscal operations late in 1970 and early in 1971. The study report, issued in March 1971, identified significant weaknesses in the college's organization and staffing for fiscal operations and in its accounting system. The report contained 82 recommendations for effecting major changes in these areas; 70 of the recommendations dealt with the college's accounting and related systems.

#### LACK OF A SYSTEMATIC PLAN FOR CARRYING OUT STUDY RECOMMENDATIONS

The college's management generally agreed that the recommended changes would improve the college's financial management. When it received the study report, however, the college did not establish priorities and milestones for considering and implementing the recommendations. Also it had not established procedures to provide management with periodic written reports to highlight action taken, action postponed, or decisions not to take action.

As a result, the college's management officials did not have reliable information with which to (1) assess progress being made in implementing the recommendations and (2) insure that the full potential benefits of the study would be realized.

We suggested to college officials that all study recommendations be reviewed to identify those that had not been fully implemented. Priorities and milestones for implementing the recommendations could then be established. We suggested also that periodic reports be prepared to keep top management informed on the disposition of the recommendations, including explanations for not taking action.

The business manager agreed with our suggestions and said that the recommendations would be put into effect.

Some of the more significant weaknesses commented on in the study report and the college's progress toward correcting them are discussed below.

WEAKNESSES IDENTIFIED IN THE  
COLLEGE'S FISCAL ORGANIZATION,  
STAFFING, AND ACCOUNTING SYSTEM

Organization

The Price Waterhouse study report brought out that the college's organization for fiscal operations had not developed commensurately with the growth of the college and in many ways did not satisfy the needs of the college. The study report noted that

- the organization for fiscal operations appeared to have been developed without the benefit of any over-all long-term plan which would take into account changes anticipated elsewhere in the college,
- although organization policies had been communicated throughout the college, these policies and the related responsibilities and channels of communication apparently were not clearly understood, and
- the existing organizational concept did not support the desirable management process of assigning responsibility for the activities conducted by the organization to a single individual.

The college has taken the following actions to implement these recommendations.

- Realigning organizational functions and more clearly defining responsibilities of individuals.
- More clearly communicating information on fiscal policies, fiscal organization, and related responsibilities to all appropriate personnel.

We believe these actions should result in improving the college's fiscal operations.

## Staffing

The study report identified business office staffing as a major problem. Staffing at certain key supervisory and staff levels was found to be generally inadequate because the incumbents were underqualified for their positions. This finding was based on a comparison of qualifications of individual key staff level and supervisory employees with the qualifications required for their respective positions. Price Waterhouse concluded that these staff members, as a group, were underqualified for the positions they held.

This situation was attributed, in large part, to the college's recruiting methods. Price Waterhouse concluded that the college's policy of relying on referrals of friends and associates of current employees as the primary source of candidates for vacant positions had generally resulted in the hiring of less qualified persons than those who might have been hired as the result of a broader and more intensive recruiting effort.

The report included recommendations for creating several new business office positions, instituting a merit appraisal program, following improved recruiting methods, and using staff training programs where merit reviews indicate the need for such programs.

The college has taken several actions to strengthen its business office staffing along the lines recommended in the study report. Since the report was received, the college has hired a controller, a new chief accountant and electronic data processing coordinator, a director of general services, a new purchasing agent, a systems analyst and programmer, and two buyers.

Of the group of 10 key personnel evaluated by Price Waterhouse, five were underqualified for their positions. The employment of two of these persons was terminated, and three were reassigned to duties of lesser responsibility. The positions held by these five employees, and the actions taken by the college regarding them, are listed below.

Assistant business manager, general services (terminated)

Director of budgets and grants (terminated)

Director of accounting (reassigned)

Assistant director of accounting (reassigned) .

Director of purchasing (reassigned)

Under current procedures the college no longer relies on referrals from college employees as the primary source for candidates for vacant positions. Job openings are posted on campus bulletin boards, are sent to several outside organizations, and are advertised in local newspapers. A training program for nonfaculty personnel was scheduled for initiation in the summer of 1972, and a merit (job performance) appraisal system was planned for initiation in the fall of 1972.

#### Accounting and related systems

Seventy of the report's recommendations were directed at correcting deficiencies in the college's accounting system and related systems. In the opinion of Price Waterhouse, the existing accounting system generally did not provide adequate internal control over the college's assets and financial transactions and did not fully satisfy the college's financial reporting needs. Price Waterhouse reported that:

- The policies and procedures relating to budgetary control, business management of the Model Secondary School, and overall planning established by the college administration had not been clearly defined or communicated to the various organizational levels of the college.
- Prescribed procedures had not always been followed, which resulted in inadequate accounting records and in late reporting.
- In several areas, accounting data was often inexact relative to acceptable standards.

- Subsidiary records of equipment had never been reconciled with the control account balance.
- The classifications and coding structure of the accounting records were not adequate to provide good controls or management reporting required in a rapidly expanding environment.
- Reporting at all levels was inadequate to meet increasing management information needs.
- Both academic and nonacademic users of accounting data had indicated a lack of confidence in the accounting records and reports.

Our analysis of actions taken by the college to implement the 70 recommendations for improving the accounting and related systems showed that by mid-May 1972 the college had made substantial progress in this area.

Fifty-one of the recommendations had been fully implemented. The college was planning to implement nine others by about July 1, 1973; six others when its computerized accounting system becomes operational about July 1, 1973; and two others (involving the preparation of manuals for accounting and for the administration of grants) about July 1, 1974, after the computerized accounting system has become fully operational. Of the two remaining recommendations, one is still under consideration and the other is considered impracticable.

One of the nine recommendations to be implemented by July 1973 deals with the need to establish more effective accounting control over the college's equipment.

A list of equipment, based on a physical inventory taken over a 3-year period between 1967 and 1970 and on subsequent equipment acquisitions, showed equipment costing about \$2.9 million. The college did not use this list, however, to adjust its general ledger account for equipment--which had a balance of \$1.9 million at June 30, 1971--nor did it make any analysis to determine the causes of differences between the physical count and the accounting records.

Although the study report had included a recommendation that the college take a new physical inventory of equipment and use it to adjust the accounting records, such inventory had not been taken at the time of our review. After we discussed this matter with college officials, the college developed plans for taking the inventory. The business manager said that a physical inventory of equipment would be taken and that it would be made on a continuing, cyclical basis. He said also that, after the causes of differences were investigated the balance shown in the general ledger would be adjusted on the basis of the physical counts.

We believe these actions, if effectively carried out, should improve the administrative control of the college's equipment.

#### Opportunity to earn more interest income

Another recommendation for improvement, which had not been implemented at the time of our review, was directed toward the preparation of monthly statements of cash flow and the preparation of quarterly cash-flow projections to permit maximizing income from temporary investments.

The college invests some of its nonappropriated funds in short-term certificates of deposit; these investments earned about \$16,800 for the college in fiscal year 1971 and about \$14,000 in the first 9 months of fiscal year 1972. The college has additional nonappropriated funds in non-interest-bearing accounts. We believe the college could earn additional interest of several thousand dollars annually if it closely analyzed its cash flow and deposited all funds in excess of current requirements in interest-bearing accounts or made additional short-term investments.

College officials have agreed to review and evaluate the potential for earning additional interest income on funds currently deposited in non-interest-bearing accounts.

## CHAPTER 4

### DISCUSSION OF SPECIFIC MATTERS

#### DIVERSION OF PAYROLL FUNDS

Between January 1968 and November 1969, the college's former chief accountant misappropriated payroll funds by issuing and cashing paychecks in the names of fictitious or former employees. The college terminated his employment in November 1969. He subsequently pleaded guilty to charges of forging and fraudulently passing U.S. Treasury checks and was sentenced to 3 to 10 years in prison. In connection with the misappropriation, the former chief accountant had prepared voucher items totaling \$136,308, but, because \$18,430 represented withholdings for income and social security taxes, actual cash misappropriated was \$117,878. The college recovered \$50,000 from its bonding company, and the agencies concerned adjusted the withheld income and social security taxes. The remaining \$67,878 was not recovered. The banks that cashed the forged checks have denied any liability in this matter. However, in April 1972, the Department of the Treasury informed the college that the matter was being prepared for referral to the U.S. Attorney General for taking appropriate action to protect the Government's interests.

In accordance with Congressman Macdonald's request, we inquired into the effectiveness of actions taken by the business manager to protect the college's interests in hiring the former chief accountant and in establishing internal controls over payroll operations.

#### Unsound employment procedures

The former chief accountant was hired by the business manager in August 1967. Under the college's employment procedures at that time, nonfaculty personnel were hired directly by the departments in which they were to be employed. Under current procedures nonfaculty personnel are hired after they are screened by the college's personnel office and department heads involved.

The personnel file maintained by the college for the former chief accountant contained neither complete information regarding his previous work experience, or any

information regarding the extent to which the college investigated his background before hiring him. The only background data in the file consisted of a brief, undated resume which indicated that he had been employed by a construction company for 6 years (not correct--court records show 1 year and 10 months), by an automotive parts company for 2 months, and by a printing company for 8 months. Neither the names of these companies nor the dates of employment were shown.

Court records showed that in 1964 and 1965 the former chief accountant was employed as a timekeeper by a construction company which paid its employees in cash. The records showed that a \$521 shortage in his payroll funds was paid by a bonding company but that criminal charges were not filed.

The records showed further that he had been involved in a misappropriation of payroll funds totaling about \$12,000 from an electric company where he was employed as a bookkeeper from October 1965 to September 1966. The records showed that the company was reimbursed for the loss by its bonding company but that criminal charges were not filed.

The former chief accountant's last employment before being hired by the college, according to the court records, was with a printing company, where he was employed as an accounting cost clerk from November 1966 to July 1967. The records showed that he was discharged from this position because he was considered untrustworthy.

The college did not know about the former chief accountant's previous misappropriations of funds when he was hired because the college's background investigation was not sufficient to disclose the facts regarding his prior employment. The business manager said that his investigation of the applicant's background had been limited to a telephone inquiry of the last previous employer, the printing company, and that he had received a favorable response to his inquiry although, as previously noted, the applicant had been discharged from his position with that company. The business manager was unable to recall either the name of the person with whom he spoke or the name of the company. The file made available by the college for our examination



contained no record of this inquiry. The business manager said that neither he nor anyone else at the college had contacted any of the applicant's other former employers.

Under the college's current procedures, all applicants are required to provide comprehensive histories of their backgrounds, including work experience and education. The college now makes investigations of applicants' job backgrounds before they are hired, according to selected personnel records we examined.

#### Incomplete personnel records

In an examination of the personnel records of selected employees, we observed that the college had complete records only for its newer employees--those hired after the personnel office was reorganized in March 1971.

We suggested to the college president that the personnel records for employees, including those who were employed for many years, should be complete and current to enable the college's management to keep informed of changes in the qualifications of its personnel, to provide assurance that employment policies are being followed, and to permit independent evaluations of employment practices.

The president agreed that the college's personnel files should be completed and stated that this would be done on a gradual basis in conjunction with the processing of personnel actions for these employees.

#### Insufficient surety bond

When the former chief accountant was hired, the business manager arranged to have him covered, along with other employees handling moneys, securities, and merchandise, under the college's blanket surety bond which had a maximum liability of \$50,000. The college currently has its personnel bonded for \$100,000.

#### Inadequate internal controls over payroll operations

One of the means by which the business manager attempted to protect the college against the diversion of payroll

funds during the tenure of the former chief accountant was to personally review each payroll before paychecks were issued. These reviews, however, proved to be ineffective in detecting the misappropriation of payroll funds that occurred.

In discussing this matter with us, the business manager explained that the purpose of his payroll reviews was to determine whether the amounts of the payrolls appeared to be reasonable in relation to previous payrolls. Although he had noted that the payrolls had increased during the period in which the misappropriation of payroll funds had occurred, he had attributed this increase to the facts that the college's budget had increased and that the college's costs were increasing.

The business manager added that, in view of the limited extent of his payroll reviews, it had been impossible for him to detect fictitious payees because of the large number of names on the payroll, the substantial turnover of permanent employees, and the many additions and deletions of student employees and other temporary and part-time employees.

The business manager said that, to protect the college against the diversion of payroll funds, he had relied primarily on (1) the supervision over the chief accountant exercised by his immediate superior, the assistant business manager, fiscal affairs, (2) the acuteness of department heads in making sure that payroll costs for their respective departments were within expected ranges, and (3) the annual audits of the college's accounts by Price Waterhouse.

The second of these three controls ultimately led to the discovery of the misappropriation of funds. The chief librarian noted that the library department, which was a rather small department, had been charged with what appeared to be an excessive amount for salaries. Her questioning of the amount led to the discovery of the diversion of payroll funds.

After the diversion of funds was discovered, the college, with the assistance of Price Waterhouse, redesigned its payroll system and placed increased emphasis on internal

controls, including the division of payroll functions among several employees.

We believe the present internal controls over the college's payroll operations should be adequate to prevent diversion of payroll funds, provided that control procedures are not relaxed or circumvented.

#### Annual audits

According to a Price Waterhouse representative, that firm's annual audits for fiscal years 1968 and 1969 did not disclose the diversion of payroll funds because its examination of payroll transactions had been made on the basis of selective tests. He stated that the auditors had done a substantial amount of payroll verification work, including the witnessing of payouts, but that most of this verification had been limited to the larger departments of the college, whereas most of the fraudulently issued paychecks were included in payrolls for the smaller departments.

Because there may be a misunderstanding as to an accountant's responsibility for the discovery of fraud, the following is quoted, in part, from the American Institute of Certified Public Accountants Committee on Auditing Procedure Statement No. 33.

"The auditor recognizes that fraud, if sufficiently material, may affect his opinion in the financial statements, and his examination, made in accordance with generally accepted auditing standards, gives consideration to this possibility. However, the ordinary examination directed to an expression of an opinion on financial statements is not primarily or specifically designed, and cannot be relied upon, to disclose defalcations and other similar irregularities, although their discovery may result."

The Price Waterhouse representative stated that, following the discovery of the diversion of funds, the firm recommended that the college redesign its payroll system to provide better internal control. He said that, in addition to assisting the college in designing and installing the

revised system, Price Waterhouse revised its audit procedures--by broadening the scope and increasing the number of tests of payroll operations--to provide greater assurance of payroll accuracy and control over payroll funds.

BASIS FOR APPOINTMENT OF THE  
BUSINESS MANAGER AND HIS  
PREVIOUS EMPLOYMENT HISTORY

In accordance with Congressman Macdonald's request, we inquired into the previous employment history of the college's business manager, Mr. Paul K. Nance, and the basis for his appointment by the college.

Mr. Nance was appointed to the position of business manager in October 1966 by the then college president, Dr. Leonard M. Elstad. The personnel file maintained by the college for Mr. Nance did not contain any information regarding his previous work experience or the extent to which the college investigated his background before hiring him.

We discussed the basis for Mr. Nance's appointment with Dr. Elstad, who stated that Mr. Nance was highly recommended by HEW and by the college's vice president for planning and public service. Dr. Elstad said that he had found Mr. Nance's performance highly satisfactory and that he had displayed a devotion to duty.

According to records of the Office of Education, HEW, Mr. Nance was previously employed as an accountant for the Oklahoma Gas and Electric Company, Oklahoma City, Oklahoma (1938-43); as financial vice president of Oklahoma Baptist University (1944-62); as education research and program specialist (business administration) in the Office of Education (Dec. 1962 to Jan. 1964 and May 1964 to Oct. 1966); and as vice president and treasurer of Furman University (Jan. to May 1964).

The records of the Office of Education showed that Mr. Nance was highly recommended by the Oklahoma Baptist University and by community leaders for his employment by that Office. The records showed further that Mr. Nance's performance while he was employed by the Office of Education was satisfactory. They contained nothing of a derogatory nature.

In discussing Mr. Nance's qualifications, Dr. Edward C. Merrill, Jr., the current president of the college, said he had no information that Mr. Nance's previous employment

record had been anything but satisfactory. He said that, during the time he was president (from July 1969 to date), Mr. Nance's performance in his position as business manager was entirely satisfactory.

We asked Mr. Nance whether, in any of his previous positions, he had experienced any situation in which there had been a mismanagement or misappropriation of funds. He said that one experience involving a misappropriation of funds had occurred when he was employed at the Oklahoma Baptist University.

Mr. Nance said that, in that situation, the treasurer of the credit union (a teacher in the university's department of business administration) had been convicted of embezzling credit union funds of about \$7,000. Mr Nance said his only connection with this situation was that, as a member of the credit union's audit committee, he had noticed that the interest being earned by the credit union appeared to be low in relation to the dollar volume of its receivables. He said he brought the matter to the attention of the Federal auditor who then uncovered the embezzlement.

#### BUSINESS OFFICE STAFFING

In accordance with Congressman Macdonald's request, we inquired into the size of the college's business office staff to determine whether overstaffing existed.

We found that the business office staff<sup>1</sup> had increased from 25 in fiscal year 1967 to 35 in fiscal year 1972, an increase of 40 percent. During this period the college's student enrollment increased 25 percent (from 877 to 1,096), its faculty increased 38 percent (from 152 to 210), its overall staff increased 49 percent (from 299 to 447), and its annual operating expenses increased 143 percent (from \$4 million in fiscal year 1967 to an estimated \$9.7 million for fiscal year 1972).

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<sup>1</sup>Does not include security, physical plant operation and maintenance, dormitory custodial, and bookstore personnel who are organizationally within the college's Office of Business Management.

Price Waterhouse did not comment on whether the business office was overstaffed at the time of its review. It did, however, conclude that some employees were underqualified for their positions and that the office should be reorganized.

At the time of our review, the college had terminated or transferred the employees whom Price Waterhouse considered underqualified and had reorganized the business office along the recommended lines. The college also planned to implement a Price Waterhouse recommendation that a work measurement system be established for nonfaculty employees.

To come to specific conclusions on staffing would not be practicable, we believe, in view of the short time during which the reorganized business office had functioned. Our observations, however, were that the staff was fully occupied, and we saw no evidence of overstaffing. |

## UNSUPPORTED WRITEOFFS OF RECEIVABLES

In accordance with Congressman Macdonald's request, we examined into the extent of writeoffs of accounts receivable during fiscal year 1971.

The college's accounts receivable consist mainly of tuition and other fees to be paid by students and by States on behalf of students. The college's outstanding accounts receivable at June 30, 1971, totaled about \$243,000.

During fiscal year 1971 about \$3,300 in accounts receivable were written off as bad debts after vigorous efforts to collect them had been unsuccessful. These writeoffs appeared to be reasonable in relation to the total accounts receivable and were in accordance with normal business practice.

In our review of other receivables, however, we noted that a number of travel advances had been written off without any documentary justification. On June 30, 1971, the college wrote off 11 outstanding travel advances totaling about \$1,000. These advances, which were made between March and December 1970, were transferred from the travel advance account to an operating expense account without being supported by travel vouchers or other evidence that travel was performed. The writeoffs were made on the assumption that--even though travel vouchers had not been submitted--authorized travel probably had been performed.

We suggested to the business manager that these advances be reinstated as outstanding in the college's accounts and that action be taken by the college to recover the amounts of the advances from the persons to whom they were made unless satisfactory evidence is furnished that travel was performed and travel expenses were incurred. He said that the advances had been reestablished and were awaiting travel vouchers detailing actual expenses.

In a further test of the controls over travel advances, we examined 20 advances, totaling about \$5,500, which were made during fiscal years 1970 and 1971. Three of these advances, totaling \$1,543, still were outstanding at the time of our review, more than 8 months after the



advances were made; these advances were carried as outstanding because the travelers had not submitted travel vouchers. Three other advances, totaling \$417, were carried as outstanding for 5 months before travel vouchers for completed travel were received. Another advance, for \$135, was carried as outstanding for a year before a travel voucher was received.

The business manager agreed that the delinquent filing of travel vouchers by both faculty and staff had been a problem. He stated, however, that this matter was now being given increased attention by the accounting department and should not be a problem. The college's total outstanding travel advances were reduced from \$14,172 on June 30, 1971, to \$5,166 on April 30, 1972.

#### YEAREND SPENDING AND QUESTIONABLE PRACTICES IN THE OBLIGATION OF FUNDS

In fiscal years 1969 and 1970, the college, with respect to the Model Secondary School for the Deaf, recorded, as obligations, proposed contracts and purchase orders which had been prepared but which had not been placed with vendors. This practice was one of the subjects covered in our July 1971 report. In fiscal year 1971 the college discontinued this practice and recorded as obligations only contracts and purchase orders which had been placed with vendors.

Our examination and tests of the college's financial transactions for fiscal year 1971 showed that expenditures of Federal funds were made for properly authorized purposes. All obligations of Federal funds as of June 30, 1971, were supported by appropriate documents, and there were no obligations relating to purchase orders awaiting placement with vendors. We found no instances in which items previously disapproved had been purchased near the end of the year.

We reviewed, on a test basis, those purchases that generally were paid for from the college's private funds. In April 1971 the president of the college directed all budget unit heads not to incur obligations in the name of the college bearing a date later than May 10. We were informed by a college official that the purpose of the directive was to

make sure that the college had sufficient funds to pay for all obligations incurred in fiscal year 1971. The level of purchases rose during the month of June compared with levels in previous months because, after the availability of funds was more exactly determined, purchases could be made without fear of overobligating funds.

Many of the larger purchases made toward the end of the year had the approval of the college president. We found no instances in which items purchased and paid for generally from private funds had been previously disapproved.

## CHAPTER 5

### CONCLUSIONS

We believe the college's efforts during fiscal years 1971 and 1972 to improve its financial management have resulted in correction of many of the weaknesses which existed in the college's internal controls, organization, staffing, employment procedures, and accounting.

Because the college has made recent financial management improvement efforts which are continuing, the full impact of these improvements cannot be assessed at this time. We therefore believe that the college's efforts to improve its financial management should be critically reviewed and evaluated by the HEW Audit Agency in its future audits of the college's accounts and operations.